

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, November 21, 2008
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Michael Townsend, Chair of the ASRS Board, turned the oversight of the meeting over to Mr. Dave Byers, Vice-chair, because Mr. Townsend participated via phone. Mr. Byers called the meeting to order at 8:35 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Michael Townsend, Chair (via teleconference)
Mr. Dave Byers, Vice-chair
Mr. Tom Connelly
Mr. Jaime Gutierrez (via teleconference)
Mr. Chris Harris
Mr. Jim McLaughlin (arrived at 8:37 a.m.)
Dr. Keith Meredith
Mr. Larry Trachtenberg (via teleconference)
Mr. Steve Zeman

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the September 19, 2008 Regular Session of the ASRS Board

Motion: Mr. Steve Zeman moved to approve the minutes of the October 17, 2008, Regular Session of the ASRS Board.

Mr. Chris Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Mr. Jim McLaughlin arrived at 8:37 a.m.

3. Approval, Modification or Rejection of Recommended Administrative Law Judge's Decision Regarding Jessica Moroz

Mr. Thomas McClory, Assistant Attorney General, stated that the Board last reviewed Ms. Moroz's appeal at the September 19, 2008 Board meeting and at that time a motion was made for Ms. Moroz to undergo another Independent Medical Evaluation. Based on new information provided by Ms. Moroz's employer, Sedwick, the ASRS Long Term Disability (LTD) administrator, has now determined that Ms. Moroz does meet the requirements to receive LTD benefits.

Motion: Mr. Steve Zeman moved to grant Ms. Moroz's request for review and reverse their July 18, 2008, decision.

Mr. Tom Connelly seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the 2009 Legislative Session

Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the 2009 Legislative Session. Ms. Sorensen provided a brief overview of the 2008 general election and the changes in leadership positions in the Arizona House of Representatives and Senate. Ms. Sorensen also stated that bill folders for the proposed ASRS 2009 legislation have been opened.

5. Presentation, Discussion and Appropriate Action Regarding Iran and Sudan Scrutinized Companies List

Mr. Gary Dokes, Chief Investment Officer, Mr. Dave Underwood, Senior Portfolio Manager and Mr. Steve Traylor, Account Executive, Risk Metrics Group/ISS Governance Services, addressed the Board regarding the Iran and Sudan Scrutinized Companies List. Mr. Underwood stated that during the 2008 legislative session three bills were passed that required the ASRS to identify companies that engage in activities that could be used to support terrorism and divest from such companies.

The ASRS' first action is to identify companies meeting specific criteria into a "Scrutinized Companies List" in the case of companies with ties to Sudan and a "Scrutinized Companies with Activities in the Iran Petroleum Energy Sector List" in the case of companies with ties to Iran. These lists will be updated at least annually, although companies may be removed throughout the year.

Institutional Shareholder Services, Inc. (a subsidiary of RiskMetrics Group (ISS/RMG)), was awarded the contract to implement the requirements of the three divestment bills. ISS/RMG's first action was to create the Scrutinized Companies Lists. These lists were presented to the Board.

In the coming months, ISS/RMG will send letters to all companies that were identified on the lists. The letters will advise these companies that their activities could subject them to divestment. The letters also allow the companies to clarify their positions or cease offending activities.

6. Presentation, Discussion and Appropriate Action Regarding an Update on the ASRS Current Budget Savings Plan

Mr. Paul Matson, Director, addressed the Board regarding an update on the ASRS current budget savings plan. Mr. Matson stated that both the Legislature and the Governor's Office are looking at various actions to prepare Arizona for the current economic environment. These actions include consideration toward further reductions to state agencies' budgets for FY 09. In concert with these efforts, the ASRS has reviewed the current level of appropriations with an eye to identifying a reduction of expenditures of approximately \$750,000 for the current fiscal year.

7. Presentation, Discussion and Appropriate Action Regarding Resubmission of the FY 2010/2011 Budget Request

Mr. Paul Matson addressed the Board regarding the resubmission of the FY 2010/2011 budget request. Mr. Matson stated that with the current focus to reduce spending and control costs across state agencies, the ASRS has re-examined the budget request for fiscal years 2010 and 2011. The proposed reductions to the submittal will restrain operating costs while continuing to maintain a stable, permanent staffing infrastructure.

The reductions to the submittal can be summarized into four categories: technology systems support, out of state travel (related to asset class extensions in investment management), professional services, and equipment.

Motion: Mr. Steve Zeman moved to approve the following amendments to the appropriated budget submittal for FY 10 and FY 11:

- A reduction of \$317,900 to the budget submittal for FY 10 (no increase over the FY 09 appropriations); and
- A reduction of \$269,300 to the budget submittal for FY 11 (no increase over the FY 09 appropriations).

Mr. Tom Connelly seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding the Plan Valuation

Mr. Charlie Chittenden, Actuary, Buck Consultants, and Ms. Michelle DeLange, Consultant, Buck Consultants, addressed the Board regarding the Plan Valuation including retirement and health supplement benefits. Mr. Chittenden and Ms. DeLange summarized the Plan Valuation by noting items of interest including the upcoming change in contribution rate from 8.95% to 9.0%. The change in contribution rate will go into effect July 1, 2009. No funds are available for an additional Permanent Benefit Increase (PBI) for retired members but all current PBI's will continue to be included in benefit checks.

Motion: Mr. Steve Zeman moved to accept the Plan Valuation as presented.

Mr. Tom Connelly seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

9. Presentation, Discussion and Appropriate Action Regarding the System Valuation

Mr. Charlie Chittenden and Ms. Michelle DeLange addressed the Board regarding the System Valuation. Mr. Chittenden and Ms. DeLange provided information regarding non-retired census data, retiree census data, liabilities and funded status. The funded status for the System as of June 30, 2008 was reported as 102.20%. The ASRS must maintain current benefit levels when funded status is between 95% and 105%, therefore no additional 13th checks or additions to current 13th checks can be made. All current 13th checks will continue to be paid. No benefit reductions will be made at this time.

Motion: Mr. Steve Zeman moved to accept the System Valuation as presented.

Mr. Chris Harris seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

10. Presentation, Discussion and Appropriate Action Regarding the Long Term Disability (LTD) Valuation

Mr. Charlie Chittenden and Ms. Michelle DeLange addressed the Board regarding the LTD Plan Valuation. Mr. Chittenden and Ms. DeLange summarized the LTD Plan Valuation by noting items of interest including the upcoming change in contribution rate from 0.50% to 0.40% beginning July 1, 2009.

The total contribution rate for July 1, 2009 will be 9.40% (9.0% for retirement and health supplement benefits and 0.40% for LTD).

Motion: Mr. Steve Zeman moved to accept the LTD Valuation as presented.

Mr. Chris Harris seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

11. Presentation, Discussion and Appropriate Action Regarding the Private Equity Program Review

Mr. Dave Byers stated that this agenda item would be discussed after the presentation of the Real Estate Program Review.

Mr. Gary Dokes, Chief Investment Officer, Mr. Richard Henkel, Private Equity Portfolio Manager, Mr. Brett Nelson, Principal, Ennis Knupp, and Ms. Shari Young, Senior Investment Analysis, Ennis Knupp, addressed the Board regarding the ASRS Private Equity Program Review. The presenters provided a general overview of the Private Equity Program background, current areas under review, a Private Equity market update as well as an ASRS performance report. The strategic asset allocation policy for Private Equity is $5\% \pm 2\%$.

Mr. Larry Trachtenberg disconnected from the meeting at 11:10 a.m.

12. Presentation, Discussion and Appropriate Action Regarding the Real Estate Program Review

Mr. Gary Dokes, Mr. Eric Rovelli, Real Estate Portfolio Manager, Ms. Micolyn Yalonis, Principal, The Townsend Group, and Ms. Jennifer Young, Associate Consultant, The Townsend Group, addressed the Board regarding the Real Estate Program review. The presenters provided a general overview of the Real Estate program background, portfolio performance, property type and geographic diversification and current Real Estate market themes. The strategic asset allocation policy for Real Estate is $6\% \pm 2\%$. As of November 13, 2008, the current funded market value was approximately \$658; commitments were approximately \$1.6 billion.

13. Presentation, Discussion and Appropriate Action Regarding the Global Tactical Asset Allocation (GTAA) Program Review

Mr. Gary Dokes, Ms. Sarah Wadsworth, Senior Portfolio Analyst, and Mr. Terry Dennison, Worldwide Partner, Mercer, addressed the Board regarding the Global Tactical Asset Allocation (GTAA) Program review. Mr. Dokes stated that the ASRS GTAA program provides for the tactical investment between asset classes. Such tactical, active decisions are anticipated to provide incremental return relative to the ASRS Total Fund Benchmark. As of September 30, 2008, the total market value of the ASRS GTAA asset class was \$2.6 billion, or approximately 11% of the ASRS Total Fund. The GTAA asset class policy target/range is $10\% \pm 2\%$.

14. Presentation, Discussion and Appropriate Action Regarding the Calendar Year 2009 Board Meeting Calendar

Mr. Paul Matson, Director, addressed the Board regarding the 2009 Board meeting calendar. The proposed dates in 2009 are February 20, March 20, April 17, May 15, July 17, August 21, September 18, October 16, November 20, December 18. All Board meetings will begin at 8:30 a.m. except for the September 19 meeting, which will begin at 1:00 p.m.

Motion: Dr. Keith Meredith moved to approve the 2009 Board meeting schedule.

Mr. Steve Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

15. Director's Report

Mr. Paul Matson stated that over the next several months the ASRS will be focused on several strategic issues including investment management, in particular cash flow analysis; communications with System members; and maintaining high levels of service despite budgetary concerns.

16. Possible Presentation Regarding Board Committee Updates

Mr. Jaime Gutierrez, Chair, External Affairs Committee (EAC), stated that the next EAC meeting will be December 5, 2008.

Mr. Chris Harris, Investment Committee (IC), stated that the next IC meeting will be December 11, 2008.

Mr. Dave Byers, Chair, Operations Committee (OC), stated that the OC met November 20.

17. Board Requests for Agenda Items

There were no requests.

18. Call to the Public

Mr. Bruce Johnson, Retired Member, addressed the Board regarding concerns about ASRS investment asset allocation and investment management.

19. The next ASRS Regular Board meeting is scheduled for Friday, December 19, 2008, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

20. Adjournment of the ASRS Board

Mr. Byers adjourned the November 21, 2008 Board meeting at 12:05 p.m.

ARIZONA STATE RETIREMENT SYSTEM

Anne Wilson, Secretary

Date

Paul Matson, Director

Date